

Mr. Anthony V. Marshall  
Vice President of Reimbursement  
Diversified Health Services, L.P.  
3839 Forest Hill-Irene  
Memphis, Tennessee 38215

Re: AC# 3-RNC-J5 – Roper Nursing Center

Dear Mr. Marshall:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLW/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Mac Carroll  
Ms. Beverly Hoffman

**ROPER NURSING CENTER  
CHARLESTON, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1996  
AC# 3-RNC-J5**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 21, 1997

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Roper Nursing Center, for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Roper Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Roper Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
November 21, 1997

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA  
State Auditor

**ROPER NURSING CENTER**  
Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1996  
AC# 3-RNC-J5

	<u>10/01/96-</u> <u>03/31/97</u>	<u>04/01/97-</u> <u>09/30/97</u>
Interim reimbursement rate (1)	\$85.17	\$88.37
Adjusted reimbursement rate	<u>83.26</u>	<u>86.46</u>
Decrease in reimbursement rate	\$ <u><u>1.91</u></u>	\$ <u><u>1.91</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 15, 1997

**ROPER NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1996 Through March 31, 1997  
AC# 3-RNC-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$47.56	\$40.65	\$40.65
Dietary	<u>.60</u>	<u>7.47</u>	<u>8.59</u>	<u>7.47</u>
Subtotal	<u>\$ .60</u>	55.03	49.24	48.12
Laundry/Housekeeping/Maint.	\$ .59	6.45	7.04	6.45
Administration & Med. Rec.	<u>-</u>	<u>16.85</u>	<u>8.55</u>	<u>8.55</u>
Subtotal	<u>\$ .59</u>	78.33	<u>\$64.83</u>	63.12
<u>Costs Not Subject to Standards:</u>				
Utilities		2.83		2.83
Special Services		-		-
Medical Supplies & Oxy.		3.90		3.90
Taxes and Insurance		.45		.45
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$85.51</u>		70.30
Inflation Factor (4.90%)				3.44
Cost of Capital				8.08
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.59
Cost Incentive - For Gen. Serv. & Dietary				.60
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.25</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$83.26</u>

**ROPER NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period April 1, 1997 Through September 30, 1997  
AC# 3-RNC-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$47.56	\$43.70	\$43.70
Dietary	<u>.60</u>	<u>7.47</u>	<u>8.59</u>	<u>7.47</u>
Subtotal	<u>\$ .60</u>	55.03	52.29	51.17
Laundry/Housekeeping/Maint.	\$ .59	6.45	7.04	6.45
Administration & Med. Rec.	<u>-</u>	<u>16.85</u>	<u>8.55</u>	<u>8.55</u>
Subtotal	<u>\$ .59</u>	78.33	<u>\$67.88</u>	66.17
<u>Costs Not Subject to Standards:</u>				
Utilities		2.83		2.83
Special Services		-		-
Medical Supplies & Oxy.		3.90		3.90
Taxes and Insurance		.45		.45
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$85.51</u>		73.35
Inflation Factor (4.90%)				3.59
Cost of Capital				8.08
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.59
Cost Incentive - For Gen. Serv. & Dietary				.60
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$86.46</u>



**ROPER NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1995  
AC# 3-RNC-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,222,620	\$ -	\$ -	\$2,222,620
Dietary	348,954	-	-	348,954
Laundry	85,257	-	-	85,257
Housekeeping	106,511	-	-	106,511
Maintenance	109,458	-	-	109,458
Administration & Medical Records	760,019	27,378 (2)	-	787,397
Utilities	132,468	-	-	132,468
Special Services	-	-	-	-
Medical Supplies & Oxygen	182,281	-	-	182,281
Taxes & Insurance	20,905	-	-	20,905
Legal Fees	-	-	-	-
Cost of Capital	466,859	60 (1) 1,757 (1) 8,090 (3) 2,847 (5)	20,448 (1) 27,378 (2) 5,280 (4) 44,232 (5) <u>4,451 (6)</u>	377,824
Subtotal	4,435,332	40,132	101,789	4,373,675

**ROPER NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1995  
AC# 3-RNC-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	465,600	-	-	465,600
Non-Allowable	1,924,092	5,280 (4)	8,090 (3)	1,925,733
	<u>                    </u>	<u>4,451 (6)</u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$6,825,024</u>	<u>\$49,863</u>	<u>\$109,879</u>	<u>\$6,765,008</u>
TOTAL PATIENT DAYS	<u>*46,735</u>	<u>          -</u>	<u>          -</u>	<u>          46,735</u>

\*Adjusted to 97% occupancy

TOTAL BEDS	<u>          132</u>
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**ROPER NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1995  
AC# 3-RNC-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Land Improvements	\$ 9,507	
	Building	70,305	
	Equipment	26,500	
	Depreciation Expense - Land Improvements	60	
	Depreciation Expense - Building	1,757	
	Accumulated Depreciation - Equipment	1,279	
	Depreciation Expense - Equipment		\$ 20,448
	Accumulated Depreciation - Land Improvements		10,543
	Accumulated Depreciation - Building		51,311
	Equity		27,106
	To adjust fixed assets to historical cost State Plan, Attachment 4.19D		
2	Administration	27,378	
	Cost of Capital - Amortization		
	Organization Cost		27,378
	To reclassify start-up costs to administration HIM-15-1, Section 2132.1		
3	Cost of Capital - Amortization Expense	8,090	
	Nonallowable		8,090
	To adjust amortization expense to allowable State Plan, Attachment 4.19D		
4	Nonallowable	5,280	
	Cost of Capital - Amortization Expense -		
	Loan Costs		5,280
	To properly state interest expense State Plan, Attachment 4.19D		
5	Interest Income - Unrestricted	44,232	
	Depreciation Expense	2,847	
	Cost of Capital - Income Offset		44,232
	Other Equity		2,847
	To adjust accumulated depreciation, depreciation expense and income offset to allowable State Plan, Attachment 4.19D		

**ROPER NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1995  
AC# 3-RNC-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Cost of Capital	4,451	4,451
	To adjust cost of capital to allowable State Plan, Attachment 4.19D	_____	_____
	TOTAL ADJUSTMENTS	<u>\$201,686</u>	<u>\$201,686</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**ROPER NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1995  
AC# 3-RNC-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>132</u>
Deemed Asset Value	4,220,436
Improvements Since 1981	38,477
Accumulated Depreciation at 9/30/95	<u>(420,842)</u>
Deemed Depreciated Value	3,838,071
Market Rate of Return	<u>0.070</u>
Total Annual Return	268,665
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	268,665
Depreciation Expense	146,263
Amortization Expense	13,907
Capital Related Income Offsets	(51,011)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	377,824
Total Patient Days (Minimum 97% Occupancy)	<u>46,735</u>
Cost of Capital Per Diem	\$ <u><u>8.08</u></u>

**ROPER NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1995  
AC# 3-RNC-J5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ N/A
Adjustment for Maximum Increase	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>-</u>
Reimbursable Cost of Capital Per Diem	\$8.08
Cost of Capital Per Diem	<u>8.08</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>